

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

CU-02 EB-07 TRSE-00 COME-00 AID-05 /071 W

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R 200955Z JUL 76

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 412

INFO AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

USLO PEKNG

CINCPAC

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CINCPAC FOR POLAD

EO 11652 GDS

TAGS PFOR PINT ECON TW

SUBJECT: SUMMER DOLDRUMS

1. SUMMARY: THE JUNE 9 CABINET RESHUFFLE CONTINUES TO RECEIVE VERY LITTLE COMMENT, WITH MOST LOCAL OBSERVERS SUGGESTING IT IS SIMPLY "MORE OF THE SAME." THE ONLY APPOINTMENT THAT HAS MET WITH MUCH POPULAR APPROVAL IS THAT OF NEW TAIPEI MAYOR LIN YANG-KANG, WHO HAS ALREADY DEMONSTRATED UNCOMMON DECISIVENESS IN ADMINISTERING THE MUNICIPAL GOVERNMENT.

2. INVESTIGATION OF THE CHI TA LOAN SCANDAL IS CONTINUING, AND 36 BANK OFFICIALS HAVE ALREADY RECEIVED ADMINISTRATIVE PUNISHMENT FOR THEIR INVOLVEMENT IN THE CASE. THE GROC IS TAKING ACTION TO REDUCE NEGATIVE EFFECTS OF THE SCANDAL NOW BEING FELT BY MANUFACTURING FIRMS, AND US CONFIDENTIAL

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BANKERS ARE MOVING AHEAD IN A NORMAL MANNER, APPARENTLY

ON THE ASSUMPTION THAT THE CASE WILL BE DEALT WITH
SATISFACTORILY.

3. MOST POPULAR TOPICS OF CONVERSATION LOCALLY ARE THE
US PRESIDENTIAL ELECTIONS AND THE QUESTION OF ROC
PARTICIPATION IN THE OLYMPICS. WHILE THE CANADIAN
POSITION HAS BEEN A SOURCE OF FRUSTRATION AND DISAPPOINTMENT,
MANY HERE HAVE TAKEN HEART FROM THE FAVORABLE PUBLICITY DERIVING
TO THE ROC AS A RESULT OF THE CANADIAN ACTION AND FROM WHAT
THEY INTERPRET AS FIRM US SUPPORT. END SUMMARY.

4. THE JUNE 9 CABINET RESHUFFLE HAS OVER THE PAST MONTH
RECEIVED LITTLE COMMENT, PUBLIC OR PRIVATE. NO SIGNIFICANT
CHANGES IN STYLE OF GOVERNMENT ARE YET
ASCERNIBLE

AS A RESULT OF THE RESHUFFLE, AND LOCAL OBSERVERS HAVE
SUGGESTED IN THEIR LIMITED COMMENTS TO EMBASSY OFFICERS
THAT THE RESHUFFLE IS OF NO PARTICULAR IMPORTANCE EITHER
IN TERMS OF POLICY OR ATTITUDES OF THOSE NEWLY APPOINTED
TO THE CABINET. MOST PEOPLE APPEAR TO VIEW THE RESHUFFLE
AS SIMPLY "MORE OF THE SAME." NONETHELESS, ALTHOUGH THE
RESHUFFLE IN ITSELF DOES NOT APPEAR TO HAVE BEEN DESIGNED
TO STRIKE A NEW NOTE IN GOVERNMENT, THE PREMIER HAS
INCREASINGLY STRESSED THE NEED FOR HONESTY AND EFFICIENCY
IN GOVERNMENT, SUGGESTING THAT HE WILL DEMAND MORE FROM
CABINET MEMBERS, BOTH OLD AND NEW, THAN HE DID IN THE PAST.

5. APART FROM A FEW INDEPENDENTS, WHO HAVE CRITICIZED
THE PREMIER FOR LACK OF IMAGINATION IN RECENT APPOINTMENTS,
THERE HAS BEEN LITTLE NEGATIVE COMMENT. BUT THERE HAS
ALSO BEEN VERY LITTLE POSITIVE COMMENT ON THE RESHUFFLE.
THE ONLY APPOINTMENT THAT APPEARS TO HAVE MET WITH WIDE-
SPREAD APPROVAL IS LIN YANG-KANG'S APPOINTMENT AS TAIPEI
MAYOR. LIN HAS ALREADY DEMONSTRATED A DEGREE OF DECISIVENESS
UNKNOWN DURING THE ADMINISTRATION OF HIS PREDECESSOR,
CHANG FENG-HSU. SHORTLY AFTER ASSUMING OFFICE, LIN WON
THE PRAISE OF TAIPEI RESIDENTS BY SETTLING A DISPUTE OVER
THE ADMINISTRATION OF THE PARTICULLY PRIVATE, PARTIALLY
PUBLIC JONG HSING GARDENS. HIS ANNOUNCEMENT OF A NEW CHAIN-
OF-COMMAND ADMINISTRATIVE LIABILITY POLICY FOR MUNICIPAL
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DEPARTMENT HEADS IF THEIR SUBORDINATES ARE INVOLVED IN
SERIOUS CASES OF CORRUPTION OR LAW-BREAKING, APPLICATION
OF A DETENTION SENTENCE (INSTEAD OF A FINE) FOR GOVERNMENT
EMPLOYEES FOUND GAMBLING, AND HIS DECISION TO GIVE MORE
RESPONSIBILITY TO TAIPEI DISTRICT OFFICES IN ORDER TO
INCREASE EFFICIENCY HAVE CONVINCED MOST PEOPLE IN TAIPEI
THAT HE IS SERIOUS IN SEEKING MEANS TO IMPROVE THE EFFICIENCY
OF THE MUNICIPAL GOVERNMENT. WHILE IT IS STILL TOO EARLY

TO ASSESS THE REAL EFFECT OF LIN'S INITIATIVES, HE HAS AT LEAST BEEN SUCCESSFUL IN CONVINCING TAIPEI RESIDENTS THAT HE IS MOVING IN THE RIGHT DIRECTION.

6. INVESTIGATION AND PROSECUTION OF THOSE RESPONSIBLE FOR THE CHI TA LOAN SCANDAL CONTINUE. SO FAR, 16 SENIOR BANK OFFICIALS AND 20 MIDDLE-LEVEL BANK OFFICIALS HAVE BEEN ADMINISTRATIVELY PUNISHED, AND THEIR CASES ARE BEING STUDIED BY THE PUBLIC PROSECUTOR FOR POSSIBLE LEGAL ACTION. NOW THAT THE AUDITING OF CHI TA'S FINANCIAL STATEMENTS HAS BEEN COMPLETED, SOLUTION OF THE FINANCIAL ASPECTS OF THE PROBLEM CREATED BY THE LOAN SCANDAL CAN BE UNDERTAKEN. EFFECTS OF THE SCANDAL ARE NOW BEGINNING TO BE FELT BY MANUFACTURING FIRMS, ESPECIALLY TEXTILE COMPANIES, WHOSE ACCESS TO BANK FINANCING FOR OPERATING FUNDS HAS BEEN RESTRICTED BY NEW CAUTION DISPLAYED BY BANKS IN EXTENDING CREDIT. THIS CAUTION RESULTS IN PART BECAUSE BANK OFFICIALS ARE WITNESSING THE PUNISHMENT OF FORMER COLLEAGUES WHO DISPLAYED BAD JUDGMENT AND IN PART BECAUSE SOME BANKS INVOLVED IN THE SCANDAL WERE OVEREXTENDED. THE INDUSTRIAL DEVELOPMENT BUREAU HAS BEEN WORKING WITH INDIVIDUAL FIRMS TO ADOPT SALVAGE PLANS, AND THE CENTRAL BANK HAS AGREED TO A SIX-MONTH EXTENSION OF PAYMENTS DUE ON EARLIER LOANS TO FINANCE IMPORTED EQUIPMENT. IN ADDITION, CENTRAL BANK GOVERNOR YU KUO-HUA HAS CALLED UPON BANKS TO RESUME CREDIT OPERATIONS AS USUAL, SUBJECT TO MORE CAREFUL CREDIT EVALUATION.

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FM AMEMBASSY TAIPEI

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INFO AMEMBASSY MANILA

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RUEHKOXAMEMBASSY TOKYO 5709
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7. SECONDARY EFFECTS OF H LOAN SCANDAL WILL CONTINUE TO RIPPLE THROUGH THE FINANCIAL SECTOR FOR SOME TIME TO COME, AND IT IS STILL NOT CLEAR HOW THE MASSIVE DEBTS OF CHI TA AND ITS SUBSIDIARIES WILL BE REIMBURSED OR RESCHEDULED. IF MAJOR US BANKS SUFFER SERIOUSLY FROM THIS CASE, PROSPECTS FOR LARGE NW FINANCING BEING SOUGHT BY THE MINISTRY OF FINANCE COULD BE REDUCED. HOWEVER, AT PRESENT MOST US BANKERS ARE MOVING AHEAD IN A NORMAL MANNER, APPRENTLY ON THE ASSUMPTION THAT THE PROBLEM WILL BE DEALT WITH SATISFACTORILY.

8. FORMER VICE MINISTER OF FIANCE, WANG SHAO-YU, WHO HAD EARLIER BEEN LINKED IN RUMORS TO THE CHI TA SCANDAL, IS APPARENTLY BEING REHABILITATED, HAVING RECENTLY APPEARED AT A PERIODIC SINO-AMERICAN FELLOWSHIP BREAKFAST AT WHICH HIGH RANKING GROC OFFICIALS WERE ALSO PRESENT. IT WAS RECENTLY ANNOUNCED IN THE PRESS THAT HE HAS BEEN MADE CHAIRMAN OF THE BOARD OF A NEWLY ORGANIZED JOINT VENTURE

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COMPANY, CHINA AMERICAN PETROCHEMICAL COMPANY--50 PERCENT AMOCO (US), 25 PERCENT CPC, AND 25 PERCENT CENTRAL HOLDING AND TRUST (KMT)--WHICH WILL BUILD A PURE TEREPHTHALIC ACID PLANT COSTING OVER US\$100 MILLION. MOREOVER, ACCORDING TO THE PRESS, WANG HAS RETAINED HIS POSITION AS VICE CHAIRMAN OF THE KMT FINANCIAL AFFAIRS COMMITTEE, SUGGESTING THAT WHILE WANG MAY HAVE BEEN GUILTY OF STRONG POLICY DIFFERENCES WITH THE PREMIER, HE WAS PROBABLY NOT INVOLVED IN THE LOAN SCANDAL. SOME TAIWANESE, HOWEVER, HAVE VOICED THE OPINION THAT WANG'S REHABILITATION MAY SIMPLY BE AN INDICATION OF A MORE LENIET STANCE BY THE PREMIER TOARD MAINLANDERS THAN TAIWANESE.

9. THE US PRESIDENTIAL ELECTION AND THE NEXT ADMINISTRATION'S CHINA POLICY ARE AN ACTIVE TOPIC OF SPECULATION HERE AND WE HAVE HEARD SUGGESTIONS THAT THE GROC IS CONSIDERING APPROACHING DEMOCRATIC NOMINEE CARTER AND THE REPUBLICAN NOMINEE, ONCE DECIDED, IN ORDER TO PROMOTE ITS POSITION. SUCH A MOVE WOULD NOT BE SURPRISING: THE GROC OVER THE PAST SEVERAL YEARS HAS INCREASINGLY

SOUGHT TO INFLUENCE US OPINION AND POLICY MAKERS,
INCLUDING CONGRESS, THE PRESS, AND MOST RECENTLY US CHINA
SCHOLARS (THROUGH THE FIFTH SINO-AMERICAN CONFERENCE ON
THE MAINLAND THE TAMKANG COLLEGE AMERICAN STUDIES
CONFERENCE). HOWEVER WE HAVE BEEN TOLD ON GOOD AUTHORITY THAT SUCH
APPROACHES ARE NOT PRESENTLY PLANNED.

10. THE MOST POPULAR SUBJECT OF CONVERSATION AND IN THE
PRESS OVER THE PAST WEEK HAS BEEN THE QUESTION OF ROC
PARTICIPATION IN THE OLYMPICS. THE CANADIAN POSITION
HAS BEEN MET HERE WITH VARIED DEGREES OF INDIGNATION,
FRUSTRATION, DISAPPOINTMENT, AND RESIGNATION; BUT MANY
HAVE BEEN ENCOURAGED BY THE FAVORABLE PRESS AND PUBLIC
STATEMENTS FROM LEADERS OF VARIOUS SPORTS ORGANIZATIONS
AND COUNTRIES IN DEFENSE OF THE ROC POSITION. IN PARTICULAR,
SEVERAL GROC OFFICIALS, AS WELL AS THE MAN-ON-THE
STREET, HAVE EXPRESSED THEIR APPRECIATION FOR WHAT THEY
INTERPRET AS STRONG USG SUPPORT FOR THE ROC'S POSITION.
WHILE SOME GROC OFFICIALS VIEW THIS PRIMARILY AS A RESULT
OF US COMMITMENT TO A PRINCIPLE OF CONDUCT IN INTERNATIONAL
MEETINGS, OTHERS, BOT IN AND OUT OF GOVERNMENT,
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HAVE EXPRESSED THE VIEW THAT THIS IS A SIGNAL OF
CONTINUED USG SUPPORT FOR THE ROC ITSELF.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CABINET, PERSONNEL APPOINTMENTS, INVESTIGATIONS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TAIPEI04889
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760278-0888
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760739/aaaabifg.tel
Line Count: 253
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAY 2004 by buchant0>; APPROVED <16 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SUMMER DOLDRUMS
TAGS: PFOR, PINT, ECON, TW
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006